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SUBJECT: ROKG VIEWS ON ECONOMIC ASPECTS OF CHINA-JAPAN-ROK
SUMMIT IN FUKUOKA

REF: SEOUL 2345

11. (U) This cable is Sensitive but Unclassified and not/not intended for internet distribution.

12. (SBU) Summary: The ROKG was pleased with the substantive economic results and press coverage of the China-Japan-ROK summit meeting in Fukuoka, Japan on December 13. The Japan-ROK USD 3 billion "peacetime" currency swap line was expanded into a USD 20 billion arrangement (but in national currencies). China and Korea agreed on a new swap mechanism denominated in local currency only -- up to RMB 180 billion/KRW 38 trillion (approximately USD 26 billion at current exchange rates). The ROKG is optimistic that the Chiang Mai Initiative (CMI) leaders meeting cancelled earlier this month can be rescheduled in January or February, which will afford an opportunity to announce progress on the CMI Multilateralization (CMIM). The leaders agreed on a Chinese proposal to upgrade central bank ties through an annual Tripartite (Central Bank) Governors' Meeting. Our ROKG interlocutors told us that the Joint Statement on the International Financial and Economic Situation language on economic cooperation referred to mutual agreement that all three governments would develop additional stimulus packages for their economies. In his public statements, ROK President Lee Myung-bak stressed the agreement to work together to support the Declaration and Action Plan of the November 15 Summit on Financial Markets and the World Economy. End Summary.

13. (SBU) Deputy Econ Couns talked on December 15 about ROKG reaction on economic aspects of the summit with Yoo Byung-hee (protect), of the Ministry of Strategy and Finance's Financial Cooperation Division and Chung Hwan-Sik (protect) of the Bank of Korea. (Reftel provided Korean expectations of key issues to be addressed at or on the margins of the December 13 China-Japan-ROK summit in Fukuoka, Japan, including the CMIM and bilateral currency swaps).

14. (SBU) Yoo described the ROKG as pleased with the substantive outcome and press coverage of the summit. He stressed President Lee's emphasis on the agreement to work together to support the Declaration and Action Plan of the November 15 Summit on Financial Markets and the World Economy. Chung focused on the increasing weight given to dialogue between central bank governors.

New Bilateral Swaps, CMIM and Annual Central Bank Meetings

15. (SBU) Yoo and BOK's Chung both said that the ROKG was

pleased with the announcement just ahead of the summit on the new bilateral swap arrangements. The ROKG achieved its goal of expanding the swap arrangements. Moreover, this was done without any linkage to progress on CMIM. In the case of Korea-Japan, the USD 10 billion crisis swap line negotiated within the context of CMI remains intact. The additional USD 3 billion "peacetime" swap line (no link to the IMF) was expanded into a USD 20 billion arrangement. Although this swap is denominated in dollar terms, it is actually a won-yen swap mechanism. In the case of Korea-China, the USD 4 billion crisis swap line remains in effect and a new swap mechanism was added. The new arrangement is denominated in local currency only -- up to RMB 180 billion/KRW 38 trillion (approximately USD 28 billion at current exchange rates). Yoo stated that it was highly likely that the new swap arrangements would remain intact when the CMIM arrangements are implemented, but that no specific decision had yet been taken with respect to either the new national currency swaps or the bilateral crisis swaps.

16. (SBU) Yoo added that, given the absence of ASEAN members at the Fukuoka meeting, no new agreements on CMI or CMIM could be announced at this summit. Hinting that progress toward the launch of CMIM has been achieved, he said the ROKG will work with others to attempt to reschedule the ASEAN Plus 3 Summit that was postponed earlier this month because of the situation in Thailand. Yoo was hopeful that this could be arranged for January or February and would allow for an announcement on the CMIM.

17. (SBU) Chung mentioned the announcement that the central
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bank governors of the three countries would hold annual meetings. Previously, he explained, central bankers of the three countries have met informally as a group, but always on the margins of larger gatherings of central bankers. In contrast, the new Tripartite Governors' Meetings will be formalized and held on an annual basis. Chung explained that the Chinese had originated this idea and pushed for agreement to hold these formal annual central bank meetings. He rejected press reports suggesting that the date and place of the first of these meetings had already been determined.

Other Economic Issues

18. (SBU) The summit resulted in a Joint Statement on the International Financial and Economic Situation. Yoo described the leaders' endorsement of the Declaration (and Action Plan) of the Summit on Financial Markets and the World Economy as hortatory. He added that the language in the joint statement regarding the commitment to investment and free trade (and to the Doha Round) was intended to send a signal but was not a main topic of discussion.

18. (SBU) Yoo noted that the reference in the joint statement to Asian countries playing a role as the "center of world economic growth" did reflect discussion of financial cooperation. While no specific measures were announced, the leaders expressed satisfaction that each country was pulling in the same direction in efforts to shore up financial markets and enact large fiscal stimulus packages. He said the leaders agreed that further fiscal stimulation would be undertaken by each government.

STEPHENS